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SUBJECT: GROWTH IN REMITTANCES TO MEXICO STAGNATES

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Summary  
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¶1. (SBU) Remittances from the U.S. to Mexico grew by only 1% last year to total USD 23.98 billion. The Bank of Mexico (Banxico) attributed the fall to a combination of factors, including a slowdown in the U.S. economy, particularly in the construction sector, stricter U.S. immigration controls, and the gradual disappearance of a statistical bias associated with the measurement of remittances. Michoacan topped the list of highest grossing recipients nationwide followed by Guanajuato, Mexico, and Jalisco. Eleven areas received less remittance income than in 2006. While the slowdown in remittances will have only a limited impact on the overall economy, poorer households that rely on the receipt of these funds will take a hit. The GOM needs to promote the productive investment of remittances, work to improve financial intermediation and literacy, and support investment in small businesses. End Summary.

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Remittance Growth Sluggish  
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¶2. (U) The amount of money Mexican workers living in the U.S. sent back to relatives last year stagnated after years of spectacular growth. Remittances grew by only 1% in 2007, down from 17% in 2006 and 21% in 2005. In January 2008, remittances fell by 5.9% compared to the same month a year earlier, the worst fall since the Bank of Mexico (Banxico) began recording these transfers. At USD 23.98 billion, remittances were MexicoQ,s second largest source of foreign exchange after crude oil revenues last year -- representing approximately 2.7% of GDP. The states receiving the most transfers included Michoacan, Guanajuato, Mexico, Jalisco, and Puebla -- which jointly captured 41% of total inflows. On a per capita basis, Guerrero, Hidalgo, and Michoacan topped the list. Eleven states received fewer funds from remittances than in 2006. The largest drops were seen in the

Federal District, Michoacan, Aguascalientes, and Chiapas.

13. (U) The Banxico publicly cites a number of reasons for the sluggish growth in money transfers, including slower economic growth in the U.S. -- particularly in the construction industry because many Mexicans are employed in this sector. Banxico also says that heightened border surveillance is making it harder for Mexicans to enter the U.S. in search of work without authorization. Banxico adds that, once in the U.S., it is harder for migrants to find jobs because of tighter controls against employers who hire undocumented workers. Another reason Banxico cites for the slowdown is the gradual disappearance of a statistical bias associated with the measurement of remittances. Lower costs for transferring money, and improvements in how Banxico collects and records remittance data partially explain the high growth in remittances seen from 2000 to 2006. Because fees for transferring money became much lower, money that was already being sent to Mexico switched to official channels. Now that most people sending remittances to Mexico use formal channels that are recorded by Banxico, it makes sense that the growth rate measured for remittances would flatten out.

14. (SBU) Dr. Sergio Kurczyn Ba\$uelos, the Deputy Director for Economic and Political Research at Banamex, told Econoff that while he agreed with the reasons Banxico cited for the slowdown, it is "strange" that growth dropped off so quickly in just one year. He said that while the contraction in the U.S. construction industry will have an impact on employment rates among Mexican migrants, the effect may not be as dramatic as some believe because many workers will simply switch to other occupations. While Kurczyn agreed that the perception of increased security at the U.S.-Mexico border is probably deterring Mexicans from migrating north, he remarked

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that it is hard to quantify whether or not stepped-up enforcement is contributing to the slowdown in remittances. He said that while the number of apprehensions has fallen along the border, there are limitations to using this number as a proxy for the flow of Mexican workers into the United States. (Comment: Moreover, some argue that stricter border controls deter Mexicans already in the U.S. from returning to Mexico to visit family members. Comment.)

15. (SBU) Dr. Gerardo Esquivel from Colegio de Mexico disagreed with some of Kurczyn's comments, noting that trends in the U.S. labor market were the main reason the growth in remittances has slowed. He told Econoff that migration to the U.S. picked up during 2000-04, adding that these immigrants found jobs in construction and other sectors that allowed them to noticeably increase their income -- and hence the amount of money they were able to send back to relatives. Esquivel said that many Mexicans in the U.S. work in sectors that are sensitive to the performance of the economy, so it is not surprising that unemployment among workers of Hispanic origin in the U.S. has increased more than it has for other ethnic groups over the past year. This has translated into less money being sent to Mexico. Esquivel added that slower growth in the U.S. also deters some Mexicans from heading north to find a job. He noted, however, that he did not buy the argument that stricter immigration controls were a factor in the slowdown in the growth of remittances.

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How Is the Money Sent to Mexico?  
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16. (SBU) According to Banxico, workers send money to Mexico via four vehicles: money orders, personal checks, electronic transfers, and cash and in-kind transfers. Electronic transfers are by far the most popular method. As a share of all remittances, electronic transfers rose from 71% in 2000 to 95% in 2007. This increase is due in part to U.S. and Mexican government initiatives to allow Mexican citizens

living in the United States to open bank accounts regardless of their immigration status. U.S. banks are allowed to accept the Mexican matricula consular card, issued by Mexican consulates in the United States, as an official form of identification to open accounts. (Comment: Although these systems are designed to make the transfer of money faster and less expensive for the customers, the rapid movement of such vast sums of money by persons of questionable identity leaves the money transfer systems open to potential money laundering and exploitation by organized crime groups. End Comment.) As noted above, another reason electronic transfers have become more popular is the large reduction in transaction fees for sending money to Mexico. According to a report from Profeco (Mexico's federal consumer protection agency), these fees fell 63% from 1999 to 2006.

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Remittances Play Crucial Role in Some Communities  
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¶17. (U) Finance Secretariat officials have told Econoff that the slowdown in remittances will have only a limited impact on the overall economy since these transfers represent such a small percentage of GDP. Nonetheless, poorer households that rely on the receipt of these funds will take a hit. For these families, remittance income is critical for maintenance of their modest standard of living. Often these households, which are usually headed by women, use remittances for household necessities such as food, clothing, and health care for themselves and their children. According a 2007 Banxico report, more than 85% of remittance funds are used to purchase consumption goods, while 6% is used for educational expenses and only 0.4% for small business investment.

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¶18. (SBU) Esquivel told Econoff that remittances are only channeled to investment when you use a general definition of investment (e.g. including education). He cited a UNDP report that found remittances promote greater investment in primary and secondary education, but not high school education. Esquivel remarked that some students in communities with a migrant tradition are more interested in emigrating than in attending high school.

¶19. (SBU) Microfinance institutions and savings and credit cooperatives report that the slowdown could negatively affect efforts to integrate more Mexicans into the financial system. These "popular finance" institutions -- which have gradually entered into the remittance transfer business over the past five years -- have been successful in channeling remittances into the financial system by educating remittance receivers of the benefits of keeping their savings in a regulated financial institution.

¶10. (SBU) Esquivel said his research shows that receiving remittances reduces a household's probability of being in food-based and capacities poverty by 7.7 and 6.3 percentage points, respectively (Note: The food-based poverty line is an estimate of the income required to purchase a food basket satisfying minimum nutritional requirements. The capacities poverty line includes non-food income for spending on education and health services. The assets poverty line also considers expenditures on housing, clothing, and transport. End Note.) These effects represent a reduction of around 36% and 23% in the corresponding poverty rates of a remittance-receiving household vis-a-vis a comparable non remittance-receiving household. In general, however, receiving remittances does not affect the probability of being in assets-based poverty. The effects of receiving remittances are similar in rural households. The main difference is that for rural households, receiving remittances reduces the probability of being in assets-based poverty by 10 percentage points (that is, a reduction of about 15% in the corresponding poverty rate).

¶11. (SBU) Since the 1990s, the Mexican government has tried to channel remittance flows into infrastructure and business development in Mexico. For example, under the "Three-for-One" program, each peso contributed by migrants from their remittances is matched by federal, state, and municipal governments for specific improvements in their hometowns (e.g. roads, schools, and water systems). Another government-sponsored program called "Invest in Mexico" provides free business planning support and directs remittances into small business start-ups. Esquivel was critical of government programs such as "Three-for-One," noting that most of the money does not go toward productive investment projects, but rather projects such as restoring the local church or plaza. While he believes these programs are not well designed, he admits that the communities that participate in these initiatives are better off.

¶12. (SBU) Esquivel remarked that local governments are not concerned about emigration because it serves as an escape valve for social and political pressures, allowing the government to avoid confronting problems like poverty and unemployment. Emigration, and the remittances associated with it, also provides a means to improve the local economy that would not have been available otherwise. He noted that in Michoacan, remittances account for 15% of GDP. Esquivel believes that leaders at all levels of government need to assume responsibility for the factors that encourage people to leave Mexico, and work to create jobs and reduce poverty.

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Comment

¶13. (SBU) There are many benefits associated with

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remittances. They not only provide a buffer against difficult times for many Mexicans, they also promote access to financial services and, in some instances, encourage small business development. However, communities can become dependent on this income as the more productive members of the community move away. Moreover, such cash infusions can mask structural problems and lessen the demand for social and economic reforms -- similar to the effect Petrodollars have in many countries. The GOM needs to increase the positive impact of remittances not only by promoting their investment in productive ventures, but also by improving Mexico's overall investment climate, encouraging access to financial services, promoting financial literacy, supporting investment in small businesses, and improving Mexico's educational system. End Comment.

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